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U.S. FINANCIAL CRISIS HAS
NO IMPACT ON BANKING SECTOR

¶1. (SBU) Central Bank of Lebanon (CBL) Governor Riad Salameh reportedly said that the banking and financial crisis in the U.S. will not have an impact on Lebanon's banking sector. A survey by the Banking Control Commission (BCC) showed that banks in Lebanon were not involved directly or indirectly with the U.S. financial institutions under crisis, and there is no fear this crisis will impact banks in Lebanon, a senior BCC source told us. The source attributed this to the low sophistication of Lebanon's banking sector, and the fact that the CBL issued several circulars setting a cap on banks' exposure to certain financial products. Meanwhile, the BCC recently sent banks a detailed questionnaire about their relationship with every commercial and investment bank, as well as financial institutions abroad, the source confided.

OBSTACLES TO BALANCING PUBLIC FINANCES REMAIN,
INFLATION EXPECTED AT 11 PERCENT IN 2008

¶2. (U) In an interview with French-language daily L'Orient du Jour, Finance Minister Mohammad Chatah noted that the three main obstacles to balancing public finances were transfers to public utility Electricity du Liban (EDL), debt service, and the recently approved increase of public sector salaries. Chatah estimated that EDL losses would increase, though he expects some reforms to take place in the electricity sector in the coming months.

¶3. (U) Regarding debt service, Chatah did not provide figures, but noted that the projected rise in international interest rates, as well as expected rise in the budget deficit, would increase debt service. Additionally, he expected the wage increase to cst the

GOL $500 million per year and lead to infationary pressures, pushing inflation to a projeted 11 percent in 2008. Chatah said the value-added tax would not be raised from ten to 12 percent in the near future, but noted that the five percent tax on interest on bank deposits will be increased to seven percent, bringing between $150 million and $200 million into the treasury.

IMF TEAM IN BEIRUT TO
PREPARE FOR NEW EPCA

¶4. (SBU) An IMF delegation will be in Beirut September 22 for a two-week visit to prepare for a new Emergency Post Conflict Assistance (EPCA) program, a senior Finance Ministry source told us. The delegation will review macroeconomic, fiscal, and monetary indicators. This visit precedes the visit of Finance Minister Mohammad Chatah to the World Bank/IMF annual meetings in Washington early October, where he plans formally to request another EPCA agreement to replace the previous one that expired in December
¶2007.

NUMBER OF TOURISTS RISE BY 29 PERCENT
DURING FIRST EIGHT MONTHS OF 2008

¶5. (U) According to the Ministry of Tourism, Lebanon saw a 29.2 percent increase in tourists in the first eight months of 2008 compared to the year before, as relative political stability revived the tourism sector. In August 2008 alone, the number of visitors reached 195,149, an increase of 33.59 percent from the same period in 2007. The largest increase in August visitors came from North America (a 44.5 percent increase, year on year), followed by Arabs

(40.7 percent increase), Europeans (29 percent increase) and Asians (20 percent increase).

PARLIAMENT LOOKS INTO
ELECTRICITY SECTOR REFORM

¶6. (U) For the first time, parliament hosted a two-day workshop (September 15-16) to coordinate among various stakeholders on options for restructuring power utility Electricity du Liban (EDL), attracting private sector investments to meet increased demand, and addressing EDL's persistent deficits. Speakers included head of parliamentary public works, energy, and transportation committee MP Mohammad Kabbani, Minister of Energy and Water Alain Tabourian, Finance Minister Mohamad Chatah, EDL Chairman Kamal Hayek, Council for Development and Reconstruction president Nabil el-Jisr, Higher Council for Privatization (HCP) Secretary General Ziad Hayek, in addition to World Bank and IFC experts. Recommendations will be issued in three weeks, MP Kabbani said.

¶7. (SBU) Although GE Energy was initially scheduled to make a presentation at the workshop, the company decided not to participate, as no other private sector supplier would be speaking. Meanwhile, GE Energy Regional General Manager Jean-Claude Nasr told the Ambassador of GE's interest in re-equipping a new power plant in Deir Ammar (northern Lebanon) that the GOL plans to contract to the private sector.

62 PERCENT OF PLEDGED POST-2006
WAR SUPPORT RECEIVED TO DATE

¶8. (U) According to the Ministry of Finance (MOF), around 1.3 billion dollars, or 62 percent of pledged support to Lebanon since the July 2006 war, has been signed into agreements as of August 2008, covering emergency relief, humanitarian assistance, recovery, and reconstruction. The GOL received $811 million in direct assistance from Saudi Arabia ($590 million), Kuwait ($82 million), Oman ($50 million), Iraq ($37 million), the UAE ($15 million), the Arab Fund for Economic and Social Development ($10 million), and Italy ($7 million). Other reconstruction and humanitarian aid projects were financed by Qatar, Kuwait, UAE, and the European

Center for Humanitarian Services. The UN and Lebanese Recovery Fund received around $143 million (from Spain, Australia, Canada, Italy and Sweden), while NGOs received $39 million, mainly from the Italian ROSS Emergency Program. Other projects were also signed between Iran, Belgium, and Italy and the Council for Development and Reconstruction (CDR).

FITCH RATINGS AFFIRMS
SOVEREIGN DEBT AT B-

¶9. (U) On September 12, Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Rating (IDR) at B-. The short-term foreign currency IDR was affirmed at B and the country ceiling was affirmed at B-. According to the report, Lebanon's rating reflects the highest public debt burden and budget deficit of any sovereign rated by Fitch, although it noted that the country has a flawless debt service record. Fitch estimated the budget deficit at 11.1 percent of GDP in 2007, with GDP growth over four percent.

LEBANON IMPROVES SLIGHTLY IN
CREDITWORTHINESS SURVEY

¶10. (U) In the Institutional Investor magazine's semi-annual creditworthiness survey, Lebanon ranked 113 out of 177 countries worldwide and 16 among 20 MENA countries. This is considered as a slight improvement compared to the previous survey in March, when Lebanon ranked 115 worldwide and 16 within the MENA region. The survey rates creditworthiness of countries on a scale of zero to 100, with 100 representing countries with the least chance of debt default.

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